



THE VIRGINIA STATE BANKER

Regulatory News for Virginia State-chartered Banks
State Corporation Commission - Bureau of Financial Institutions

Commissioner E.J. Face, Jr.

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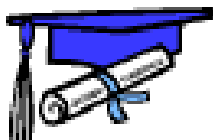
The Virginia State Banker is published quarterly by the Virginia Bureau of Financial Institutions to provide useful information to the banks and savings institutions that it regulates, and any of their related interests. Reader comments and suggestions are welcome and should be addressed to:

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Nick Kyrus, Ron Thomas, Katha Treanor, and Ginger Sandler .



FALL 2001 BANK DIRECTORS' COLLEGE

The Fall session of the Virginia Bank Directors' College will begin on October 24, 2001, and be held at the Boar's Head Inn in Charlottesville. As in the past, the Virginia Association of Community Banks (VACB) will join the Bureau, the Federal Reserve Bank of Richmond, and the Federal Deposit Insurance Corporation in hosting this educational initiative. While there is no requirement for College participants to be members of the VACB, its annual Fall Directors' Conference will immediately follow the Directors' College for the convenience of those attending.

Registration forms are still available for the Bank Directors' College. Betty Hicks in the Bank and Thrift Supervision Section is the Bureau's contact person for the College and serves as Course Administrator.

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FROM THE COMMISSIONER'S DESK:

I'm glad to have this opportunity to tell you about several unique and valuable educational programs offered by our professional association, the Conference of State Bank Supervisors (CSBS) and by the Graduate School of Banking at Colorado (GSBC). Both CSBS and GSBC have an outstanding reputation for delivering high quality, advanced financial education for regulators and bankers. I believe that the value of these programs is greatly enhanced by bringing regulators and bankers together for education.

As you may know, CSBS has had a long-term relationship with GSBC in the development of computer-based educational tools. This year we are expanding our relationship to co-brand and market seminars around the country. The principle of our relationship is that both sides gain when regulators and bankers come together for training.

Two of the programs, *Fraud Identification* and *Concepts of Interest Rate Risk*, are delivered on the WEB campus, gsbc-csbs.org. This revolutionary, joint effort allows us to deliver interactive courses on the Internet. One can complete the course over a four-to-five week period, but access the course on one's personal schedule, further enhancing the educational value.

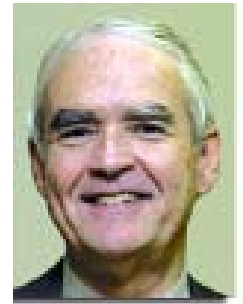
The *Liquidity & Capital Markets Seminar* and *Risk-Based Supervision* are very popular seminars that will deliver instant take-home value to your organization. The *Bank Directors College* is a new initiative for CSBS and GSBC. We are bringing together the best and brightest to deliver real tools so your directors can serve your bank and community more effectively.

Please consider these great opportunities. I will be sending you a brochure soon providing more information about the programs. In the meantime, feel free to give Mike Stevens, CSBS Vice President-Education, a call at 800-886-2727 Ext 701 with any questions you may have.

P.S. Since CSBS is co-sponsoring these programs with GSBC, the programs are open to anyone and any bank or thrift, whether state or national, CSBS member or non-CSBS member.

TEXAS BANKER SEATED AS NEW FDIC CHAIRMAN

Donald E. Powell reported for duty on August 27, 2001 familiarizing himself with his new surroundings at 550 17th Street NW, in downtown Washington, D.C. prior to being sworn in as the 18th Chairman of the Federal Deposit Insurance Corporation (FDIC).



"I've spent my entire professional career as a banker and look forward to working with the dedicated and trusted people of the FDIC," said Chairman Powell. "This is an exciting time in the banking industry, and I am honored to be able to have a hand in shaping the issues that lie ahead."

Prior to being sworn in as FDIC Chairman, Mr. Powell was President and CEO of The First National Bank of Amarillo, Amarillo, Texas. He began his banking career in 1963 at First Federal Savings & Loan of Amarillo. In addition to his professional experience as a banker, Mr. Powell has served on numerous boards of universities, civic associations, hospitals and charitable organizations. Mr. Powell is a graduate of the West Texas State University with a degree in economics and is married with two grown sons.

Mr. Powell succeeds former Hawaii Banking Commissioner Donna Tanoue, who chaired the FDIC from May 26, 1998 until July 11, 2001. John Reich, a director on the FDIC's board, has served as Acting Chairman since July 12, 2001. One vacancy remains on the FDIC Board.

New State Bank Opens

The Freedom Bank of Virginia opened for business at 502 Maple Avenue, Vienna, Virginia, on July 23, 2001. The Chief Executive Officer is **James N. Newsome**. The bank is a member of the Federal Reserve Bank and it opened for business with \$8.5 million in capital.

The following Article is from the July 2001 issue of the Virginia Association of Community Banks' newsletter and is reprinted with their permission

BANKERS BEWARE!

There is an e-mail floating around asking for help getting money out of Nigeria. The e-mail is from Mr. Sadiku Momodu, who claims he is a government official. He is asking for banks to provide a place to remit money and in return they will get 25% of the money in the account. Remember: If something sounds too good to be true, it probably is. The email address to be on the lookout for is: sadikumomodu@yahoo.com.

Also, there is a scam out of Canada regarding the Canadian Lottery. Certified checks are sent to people in the U.S. as partial payment of a settlement in the Canadian lottery. The recipient is advised to deposit the check and return a portion by check or wire transfer to cover a non-resident tax for the customs department. These checks have been stolen from the home of Nicole Patrice in Quebec and are worthless. They have been altered by adding the wording CERTIFIED CHECK and USD, and the checks are usually signed N. Patrice. Accompanying each check is a letter from Ward, Klein & Associates, Washington, D.C. advising the recipient of the lottery settlement. The recipient ultimately loses the entire amount remitted for the "non-resident tax."

Although it does not appear that banks are the primary targets of this fraud, banks should watch for any unusual deposits involving "certified" checks from Canada and any unusual wire transfers going to Canada, particularly involving accounts of elderly customers. Banks should not advance funds on the deposited checks, since they risk potential losses if uncollected funds are advanced to customers with small balances who may be the targets and victims of this fraud, and may not be able to cover the shortfall.

SCC OFFERS CONSUMER CHECKLIST ON "CALLABLE" CD'S

The volatile stock market can make certificates of deposit appealing to investors. However, some CDs aren't what they seem. That's the message behind a handy checklist now available from the State Corporation Commission (SCC).

State securities regulators throughout the country have received complaints from elderly investors that they have been misled into buying "callable" CDs with 10- to 30-year maturities. The SCC encourages investors to use the checklist to avoid getting stuck with something they do not want.

"Not all CDs are created equal, so it is important for investors to understand exactly what they are buying," according to Ronald Thomas, director of the SCC's Division of Securities and Retail Franchising. "Callable CDs often have higher yields than traditional bank-issued CDs because they require a 10-, 20- or even 30-year commitment. Investors should be careful and ask the questions on the checklist to make sure they know what they are getting into and whether it meets their investment objectives," Thomas said.



Ron Thomas

The fill-in-the-blank checklist consists of 13 questions designed to help investors distinguish between traditional bank-issued CDs and callable CDs. Although callable CDs usually offer higher returns, there are substantial penalties for cashing them before their maturity date.

Many investors do not realize that with callable CDs, only the issuer - and not the investor - can "call" or redeem the CD. Thomas warns that investors who want their money before a callable CD matures risk a substantial loss - as high as 30 percent.

Callable CDs are being marketed via newspaper ads, high-pressure telephone solicitations and direct

Bureau Profile: Bill Schutt Announces Retirement

Contributions from Katha Treanor

- **Name:** William F. Schutt
- **Current Position and Years of Service:** Senior Counsel; 27 years
- **Main Responsibilities:** Provide legal counsel to the Bureau of Financial Institutions
- **Education:** Davidson College, Bachelors Degree in History
T. C. Williams School of Law, Juris Doctor
- **Family:** Wife, Two Daughters and a Son
- **Personal Interests:** Tennis, Singing, Reading, and Exercising



Longtime Senior Counsel with Office of General Counsel (OGC) of the State Corporation Commission, **Bill Schutt** announced recently that he will retire on October 1, 2001. He started his career at the Commission as an attorney in 1974, providing legal services for what were then the Banking and Insurance Bureaus. Bill eventually rose to the rank of senior counsel for the Bureau of Financial Institutions (BFI).

A highlight of Bill's SCC career came shortly before his retirement announcement. He had an opportunity to help prepare a petition that BFI Commissioner **Joe Face** and other defendants filed in the United States Supreme Court in June in the case of NHEMA (National Home Equity Mortgage Association) v. Face, et. al. The petition seeks a review of rulings by two lower federal courts: that the Alternative Mortgage Transaction Parity Act, as implemented by the Office of Thrift Supervision preempts Virginia's prepayment penalty nonbank laws on home mortgages. The Supreme Court is expected to review that petition on September 24 and decide whether to accept the case for briefing, a hearing and a decision. "It was an exciting and an interesting thing to do," Bill said.

The thing Bill has liked best about working at the SCC is the people. He expressed appreciation for the good working relationship he has with the OGC and BFI staffs. He works closely with fellow attorney **Jonathan Orne** of OGC in providing legal assistance to BFI. "Bill has always been a source of good advice to people in the Bureau of Financial Institutions, and has given very thorough consideration to issues presented to him for his resolution," Jonathan said.

Nancy Lowery, office supervisor for OGC, describes Bill as a "very caring person." OGC Systems Manager **Nancy Hood** said she has enjoyed working with Bill for 22 years. "Bill is a really nice person . . . I'll miss him a lot," she said. **Commissioner Face** stated "Bill has been a tremendous asset to me and the Bureau of Financial Institutions. He has provided me with much wise advice over the years. I will miss his good counsel and friendship."

During his tenure at the SCC, Bill said, "technology has changed the way regulated businesses operate, and the SCC has changed to take advantage of technology, too." His greatest challenge at the SCC has been adapting to change. His advice to the SCC: "Continue to be a force for the good of the public at large, as well as responsive to the legitimate needs of business in the State of Virginia."

Prior to joining the SCC, Bill practiced law for more than two years with a small Richmond law firm. A Richmond native, he graduated from Davidson College in North Carolina with a B.A. degree in history. After a two-year tour in the U.S. Army, he decided to attend the T. C. Williams School of Law at the University of Richmond where he earned a juris doctor degree. Bill and his wife, Genie, have two daughters, Melissa and Anne, and a son, Frederick. When he's not working, he enjoys tennis, singing, reading, and exercising.

Bill has no specific plans for retirement. He said he will "try to find some useful work around town for a few years" and travel. If he could do anything, he said, it would be to "try to make a difference in some people's lives."

SCC URGES CONSUMERS TO MAKE SURE THEY USE LICENSED COMPANIES

The need to send cash quickly to family members or friends across the country or overseas means a growing number of firms in Virginia are forming non-bank entities to meet the consumer demand. The State Corporation Commission's (SCC) Bureau of Financial Institutions reminds Virginians they should make sure they are using a company that is licensed under Virginia law.

Currently, 43 companies in Virginia are licensed to transmit money or issue money orders. Eight more companies are seeking a license from the SCC's Bureau of Financial Institutions. These firms and nearly 1,000 agents throughout the state transmit funds by wire, facsimile, electronic transfer or courier.

Commissioner of Financial Institutions E. Joseph Face, Jr., says, "Licensed money transmitters and money order sellers offer a valuable public service. But, care must be taken because there are unlicensed firms that may not be operating within the law." Virginia started regulating money transmitters in January 1995.

Concerns about transactions involving funds derived from illegal activity have increased the level of federal oversight of money services businesses. The Bureau recently cooperated with federal prosecutors who brought criminal charges against two individuals operating an unlicensed money transmission business in Northern Virginia. The owners of a business called Vina Express in Alexandria allegedly violated federal law designed to combat money laundering and state law for operating without a license.

Virginia law governing money transmitters was enhanced during the 2001 session of the General Assembly. Money transmitters and money order sellers are required to maintain a minimum net worth of \$100,000 and a maximum bond of \$1 million. The law also makes clear that a license is required if a firm transmits money via the Internet or issues "stored value" cards that can be used to purchase goods or services.

Virginians can check whether a money transmitter or money order seller is licensed by visiting the SCC's web site at: <http://www.state.va.us/scc/division/banking/index.htm> or by calling the SCC toll free, 1-800-552-7945, and asking for the Bureau of Financial Institutions.

VIOLATION OF STATE LICENSING LAW BRINGS FEDERAL CHARGES

For the first time since the enactment of 18 U.S. Code Sec. 1960, federal prosecutors brought criminal charges against two individuals for knowingly engaging in the money transmission business without obtaining a money transmission license required under Virginia laws. Quygum Luong and Phan Yen of Vina Express pleaded guilty to one count of violating 18 U.S. Code Sec. 1960 and will be sentenced in September in Alexandria, Virginia. Such violations carry monetary penalties and/or maximum imprisonment of not more than five years. An \$80,000 bank account of Vina Express was forfeited.

18 USC Sec. 1960 was enacted for the purpose of combating money laundering. It prohibits the conduct, control, management, supervising, direction or ownership of a money transmission business, knowing that the business is operated without the required state license or required federal registration. The federal government requires registration of money transmitters and other money services business with the Financial Crimes Enforcement Network (FinCEN) effective December 31, 2001. FinCEN is part of the U.S. Treasury.

Virginia started regulating money transmitters effective January 1, 1995 pursuant to Chapter 12 of Title 6.1 of the Virginia Code (Money Order Sales and Money Transmission Business). The 2001 Virginia General Assembly enhanced the licensing and operating requirements of money transmitters and money order sellers, requiring a minimum net worth of \$100,000 and increasing the maximum bond to \$1.0 million. It also clarified the definition of a money transmitter to include money transmission over the Internet and the issuance of store value cards. Presently, there are 43 money order / money transmitter licensees operating in Virginia with thousands of agents. The Bureau is now investigating eight applications for licensing.

Depository financial institutions may want to make note of the new federal registration requirements for money services businesses and the amendments to Chapter 12, Title 6.1 of the Virginia Code. The FinCEN website at www.ustreas.gov/fincen provides valuable information about the new money services business registration requirements and the activities of FinCEN. Also check our website at www.state.va.us/scc/division/banking.

GENESYS DEVELOPMENTS

Senior Analyst Ron Prillaman, of the Bureau's Bank and Thrift Supervision Section, has been working on the GENESYS project with representatives from the FDIC, Federal Reserve and other State regulatory agencies. GENESYS is a software tool used by examiners to facilitate the completion of examination reports. The project has been ongoing for several years, and Ron has been involved with most phases of its development. He was also asked to be a trainer for the initial rollout.



Ron Prillaman

In addition to helping train examiners from other states and the federal agencies, Ron also headed up the Bureau's internal training for this tool. The latest version has just been released, and Ron was instrumental in developing several of the "nuts and bolts" fixes that went into this last version. When the Bureau's examination schedule precluded his participation in final testing, the Bureau received numerous requests from federal regulators for his help. It was gratifying to know Ron's abilities are so well respected by the others involved in the project. Ron's participation means the Bureau will have a better tool to use in completing our examination reports.

"CALLABLE" CD'S

CONTINUED FROM PAGE 3

mail. Many print ads emphasize the CD's interest rate in large print, but bury its maturity date in small type and technical jargon.

Before purchasing any CD, Thomas urges investors to review the checklist, which prompts them to learn its maturity date, where the money will be deposited, the penalties for early withdrawal, any costs associated with selling before maturity, and whether the interest rate is fixed or variable. State and federal securities regulators can answer questions about stockbrokers, brokerage firms, or specific securities products such as callable CDs.

The checklist is available at the following web address:
www.state.va.us/scc/news/callablecdchecklist.pdf

For more information, call the SCC's Division of Securities and Retail Franchising in Richmond at (804) 371-9051 or toll-free (in Virginia only) at 1-800-552-7945. You may also visit the division's web site at www.state.va.us/scc/division/srf.

PLEASE VISIT OUR WEBSITE AT:
www.state.va.us/scc/division/banking